



State of Idaho

Legislative Services Office

Special Report

A communication to the Joint Finance-Appropriations Committee

ANNUAL REPORT ON IMPLEMENTATION OF
AUDIT RECOMMENDATIONS

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Serving Idaho's Citizen Legislature



Idaho Legislative Services Office
Legislative Audits Division

ANNUAL REPORT ON IMPLEMENTATION OF AUDIT RECOMMENDATIONS

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SUMMARY

PURPOSE OF THE REPORT

Idaho Code, Section 67-702, defines the audit function of the Legislative Services Office. Under the direction of the Legislative Council, the Legislative Services Office has the authority to:

- a) Perform the annual audit of the statewide annual financial report prepared by the Office of the State Controller.
- b) Perform an annual audit of federal financial assistance provided to the State that meets the requirements established by the federal government.
- c) Perform a management review of each executive department of State government at least once in a three-year period.

We believe it is important to provide policy makers and the general public with information about the progress made by State agencies to complete corrective action plans that are intended to remedy findings.

A list of the most recent reviews completed by agency, including the number of findings initially reported, the date of any follow-up work completed, and the current status of the findings is included in Appendix A of this report. Not all State entities are included in this list because some are allowed to utilize an external CPA firm to complete annual audits. Generally, this authority is only allowed for constitutional officers, other branches of government, or quasi-governmental agencies with independent authority designated through Idaho statutes. Idaho Code, Sections 67-450C and 67-450D, also provide this option to other affiliated organizations, State entities, or specific designated entities.

This report is a public document, and a copy is available by calling 208-334-4832 or by visiting our website: <http://www.legislature.idaho.gov/audit/auditsummaries.htm>.

CORRECTIVE ACTION IMPLEMENTATION RESULTS

We have included 97 different agency reports in this review. These reports were sorted by type of report issued, audit year covered, and findings reported. As of December 31, 2013, approximately 60% (37 out of 62) of the findings remain open. There are a variety of reasons the findings remain open. Sometimes the corrective action may take longer than 90 days to complete, which leaves the finding open in the follow-up report. Other times, the finding may not be closeable until completion of the next audit cycle because of the activity or reporting period affected. When an agency has a Single Audit finding, we are required to audit that program again the following year.

Below, Chart 1 shows the number of agencies visited for each type of report we issue and the number of findings reported. Chart 2 shows a comparison of original findings to currently unresolved findings, by report type.

REPORT LEGEND

CA—Comprehensive Annual Financial Report audit covers the State as a whole and typically addresses 10-15 larger agencies.

MR—Management Review is the cyclical financial review completed on each agency at least once every three years.

OP—Entity Opinion Audit is the financial statement audit completed at a single entity level, such as Public Health Districts and Idaho Public Television.

SA—Single Audit Report covers federal assistance received by the State, and focuses on larger and/or

Chart 1: Findings by Report Type and Agency Visited

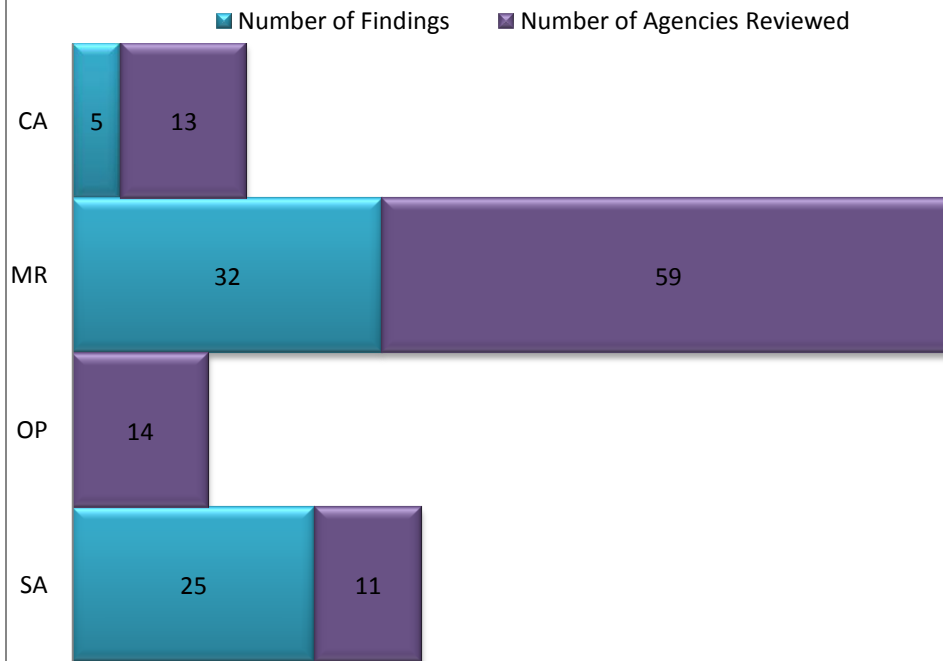


Chart 2: Comparison of Findings Originally Issued and Still Unresolved by Report Type

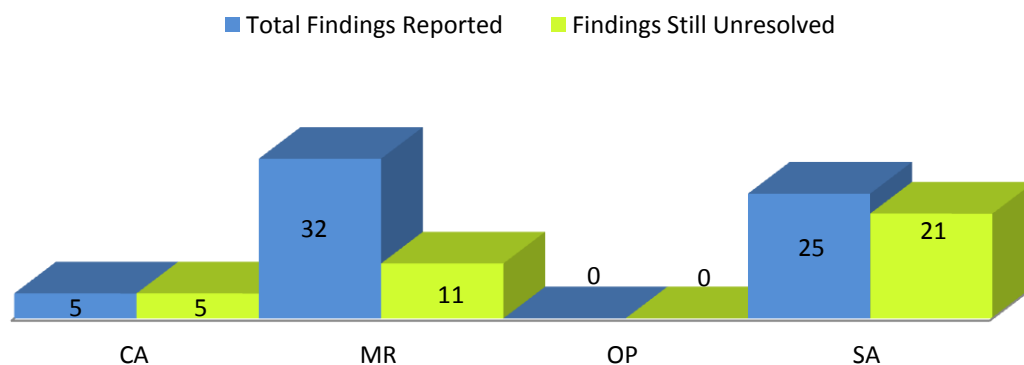


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BACKGROUND

As part of the strategic plan for the Audits Division of the Legislative Services Office, we are charged with providing an annual report of findings issued and the current status of those findings. This information is intended to provide additional tools to decision makers as they formulate the budget and make policy decisions for the upcoming year.

The Audits Division completes four main types of audits and reviews. Below is a description of each type.

Audit of the Statewide *Comprehensive Annual Financial Report*—A financial and compliance audit of the statewide financial statements prepared by the Office of the State Controller. This audit focuses on the State as a whole. Specific audit procedures are performed at various agencies contributing to significant balances or activities.

Statewide Single Audit—A financial and compliance audit of federal financial assistance expended by the State. This audit is based on the Single Audit Act requirements and focuses on federal programs identified as high risk. Programs such as Medicaid, Unemployment Insurance, Food Stamps (SNAP), and Vocational Rehabilitation are examples of federally funded programs that may be included in this audit.

Management Review—Agencies are visited at least once every three years with the focus of the review on identifying and evaluating internal controls and specific programs that would not generally be large enough to be included in the previous two reports. Legislatively driven topics or industry-wide risk factors may also be addressed in these reviews.

Entity Opinion Audit—Approximately 10 annual financial statement audits are completed for certain State agencies or funds and some quasi-governmental agencies.

Audit of the Statewide *Comprehensive Annual Financial Report*

The audit of the statewide *Comprehensive Annual Financial Report (CAFR)* generally requires audit work at 10 to 15 State agencies in a given year. Some agencies are visited each year because of the volume of financial activity they generate, such as the Department of Health and Welfare, Idaho Transportation Department, and the Department of Labor. Other agencies may be visited more sporadically because of specific activity spikes (such as the American Recovery and Reinvestment Act (ARRA) funding) or because of higher risk factors related to specific legislation or activity. The overall approach is intended to support an opinion that the financial statements are free of material misstatements or material non-compliance. The design and implementation of internal controls is critical to providing materially accurate financial statements. Misstatements identified during the review are passed on to management for correction or, if small enough, noted but not corrected. Material misstatements (even when corrected) and significant deficiencies in internal controls or compliance are reported as findings in the *Internal Control Report*, which is issued within 60 days of the opinion on the financial statements.

When findings are reported, a follow-up report is completed 90 days after the *Internal Control Report* is issued. This follow-up report documents what steps management has taken to implement corrective actions identified to remedy the finding. If the finding is still considered open (unresolved) at this time, it will be revisited during the next audit of the statewide *CAFR* and will be closed, repeated, or reissued with additional information.

For the fiscal year 2012 *CAFR* audit, we visited 11 different State agencies or offices to complete audit procedures to support our unqualified (clean) opinion on the financial statements. The agencies visited were as follows:

- State Controller
- State Treasurer
- Superintendent of Public Instruction
- Employee Information System, State Controller
- Idaho State Tax Commission
- Idaho Transportation Department
- Department of Administration
- Department of Correction
- Department of Environmental Quality
- Department of Health and Welfare
- Department of Labor

Audit procedures completed identified five findings at three different agencies, and all five remain open pending the release of the 2013 *Internal Control Report*. Those findings, recommendations, and 90-day follow-up results are included in the findings and recommendations section beginning on page 4.

Statewide Single Audit Report

The statewide *Single Audit Report* is a reporting package submitted to the federal cognizant agency (Department of Health and Human Services), which includes the *CAFR* audit mentioned above and work completed to give an opinion on material compliance with federal requirements contained in Office of Management and Budget *Circular A-133*. Federal assistance is provided through grants and programs applied for by the states.

Federal programs are tracked by spending, and the State Controller prepares a schedule of expenditures of federal awards. We utilize a risk-based approach and evaluation of the amount spent to identify programs for audit. Currently, we are required to audit at least 50% of federal expenditures, and certain programs may be required to be audited in any fiscal year, regardless of risk or size. Medicaid and programs receiving significant ARRA funding are examples of those types of programs. Large programs will be audited at least once every three years, even if they remain low-risk programs.

When findings are reported, a follow-up report is completed 90 days after the initial report is issued. This follow-up report documents what steps management has taken to implement corrective actions identified to remedy the finding. If the finding is still considered open (unresolved) at this time, it will be revisited during completion of the next statewide Single Audit.

For the fiscal year 2012 *Single Audit Report*, we visited 10 different State agencies or offices to complete audit procedures to support our opinion. The agencies visited were as follows:

- State Controller
- Commission for the Blind and Visually Impaired
- Department of Commerce
- Department of Fish and Game
- Department of Health and Welfare
- Division of Vocational Rehabilitation
- Division of Environmental Quality
- Division of Financial Management
- Military Division
- Office of Energy Resources

We identified 13 non-clustered programs and 11 additional programs organized into 5 clusters to support our audit requirements. These programs are identified as “major programs” in the report. Audit procedures were planned and completed at 10 different agencies to provide adequate evidence to support our opinion on each major program.

The statewide *Single Audit Report* disclosed 24 findings at 5 different agencies; 21 findings remain open. Those open findings, recommendations, and 90-day follow-up results are included in the findings and recommendations section beginning on page 6.

Management Reviews

Idaho Code, Section 67-702, requires that the Legislative Audits Division review each executive branch State agency at least once every three years to evaluate internal controls and financial management. Additionally, special programs, specific legislative compliance, or new activities may be identified for review through risk assessments or legislative intent.

Reviews that include findings will also have a follow-up report completed 90 days after the initial report is issued. This follow-up report documents what steps the agency has taken to implement corrective actions identified to remedy the finding. If the finding is still considered open (unresolved) at this time, it will remain open until the next cyclical review.

For the purposes of this report, we identified 32 findings in the most recently released reports, 11 remain open. Those findings, recommendations, and 90-day follow-up results are included in the findings and recommendations section beginning on page 14.

Entity Opinion Audits

Currently, the Legislative Audits Division provides opinion audits to two State agencies and seven quasi-governmental entities. These audits are a combination of financial statement and compliance (federal) audits. We provide an opinion about the material accuracy of the financial statements and material compliance with laws, rules, and regulations. These are annual audits and, in the case of the two State agencies, are completed to meet regulatory requirements from funding sources.

Reports reviewed for this analysis included fiscal years 2010 through 2013. No findings and recommendations were noted in any of the reports.

OPEN FINDINGS AND RECOMMENDATIONS

The findings, recommendations, follow-up, and status information supplied below is for open findings only. If a finding was closed in a follow-up report, or subsequent full review or audit, it will not be included in this section. However, it is still accessible using the hyperlinks in Table 1 in the appendix or by visiting our website at <http://legislature.idaho.gov/audit/auditsummaries.htm> and selecting the report to view. The report number hyperlink will access the original report, and the date included in the follow-up report column will access the follow-up report.

Statewide Comprehensive Annual Financial Report

OFFICE OF THE STATE CONTROLLER

Finding 12S-1—Guidance was incorrectly interpreted for recording unsettled trades payable resulting in a material misstatement.

Recommendation—We recommended the Office of the State Controller (Office) review and correctly implement accounting guidance with particular attention to higher risk areas, such as new or changing accounting standards or financial transactions.

90-Day Follow-up—The Office staff stays abreast of changes to accounting standards through various communication channels and trainings and actively participates in workgroups to determine what affect each standard will have on the State and discuss the best implementation strategy. Staff assigned to a specific subject research the issue and drafts a position paper that is approved by the supervisor, bureau chief, and division administrator. It is also forwarded to the auditor for review. The Office believes their general procedures for implementing new accounting changes are adequate and no changes have been made at this point.

The Office has specifically addressed the issue regarding unsettled trades payable by revising the Deposit and Investment instructions to briefly describe changes in the Office of the State Treasurer reporting of investments as of the trade date rather than the settlement date. The new instructions state the need for open communication and coordination with the Office of the State Treasurer to ensure that unsettled trades payable are properly recorded. We will review the fiscal year 2013 financial statements as part of the statewide *Comprehensive Annual Financial Report (CAFR)* audit to verify that the accounting treatment for unsettled trades payable is correct.

Status—OPEN

Finding 12S-2—Agencies are using inappropriate signatures on time sheets and failing to maintain Employee time records.

Recommendation—We recommended that the Office of the State Controller (Office) remind agencies when each electronic signature should be used and implement procedures or controls to ensure the proper use of the electronic signatures.

90-Day Follow-up—The Office implemented programming changes to the I-Time application and communicated the reasons for these changes to agency directors and central payroll officers (CPOs). Communication emphasized the responsibility for CPOs to ensure payroll information submitted for processing is accurate and time records are properly retained. We observed the programming changes and feel they will reduce the chance of errors in timesheet signatures as long as the employee profiles are set correctly. We will complete testing of individual timesheets as part of the fiscal year 2013 *Comprehensive Annual Financial Report (CAFR)* audit, at which time we will be able to more fully determine if these changes are effective.

Status—OPEN

LABOR, DEPARTMENT OF

Finding 12S-3—The Department of Labor accounts receivable closing package included inaccurate and unsupported amounts.

Recommendation—We recommended that the Department of Labor (Department) strengthen internal controls to ensure accounts receivable amounts reported in the closing package are accurate and properly supported by accounting records.

90-Day Follow-up—The Department plans to review internal control and data collection procedures during the fiscal year 2013 closing package process. During the fiscal year 2013 audit, we will review the closing package to ensure it is accurate and properly supported.

Status—OPEN

Finding 12S-4—The Department of Labor did not properly account for funds advanced from the federal Unemployment Insurance (UI) Program.

Recommendation—We recommended that the Department of Labor (Department) implement internal controls to ensure federal funding activities are reconciled and that amounts drawn for the UI Program correspond to the amounts expended. We also recommended that the Department submit proper closing package information to the Office of the State Controller.

90-Day Follow-up—The Department implemented a monthly reconciliation process to ensure federal draws do not exceed federal UI expenditures. We reviewed several of the reconciliations, and we found them to be accurate and properly supported. We will review the submission of closing package information to the State Controller for fiscal year 2013 to ensure proper reporting of this information.

Status—OPEN

TRANSPORTATION, IDAHO DEPARTMENT OF

Finding 12S-5—Financial reporting processes contain significant deficiencies in internal control allowing several reporting errors to go undetected.

Recommendation—We recommended that the Department of Transportation (Department) improve the design and effectiveness of internal controls over the completion of closing packages. We further recommended that the Department strengthen the review process to ensure accurate reliable financial information is provided to the Office of the State Controller.

90-Day Follow-up—The Department has strengthened the closing package review process and created new reports to improve the accuracy of information reported in the closing packages. The Department met with Legislative Services Audit Division staff to review the implemented procedures, which address the recommendation. However, the effectiveness of these changes will not be clear until completion of auditing procedures on the closing packages submitted for inclusion in the fiscal year 2013 financial statements.

Status—OPEN

Statewide Single Audit Report

BLIND AND VISUALLY IMPAIRED, COMMISSION FOR THE

Finding 12F-1—Internal controls are inadequate to ensure compliance with federal requirements for the Rehabilitation Services – Vocational Rehabilitation Grants to States.

Recommendation—We recommended that the Commission for the Blind and Visually Impaired (Commission) strengthen internal controls over the process used to complete federal reports for the Vocational Rehabilitation grant to ensure compliance with federal requirements including Reporting and Maintenance of Effort.

90-Day Follow-up—The Commission continues to disagree with portions of the finding related to Reporting and the Maintenance of Effort compliance. However, after contacting the federal grantor, the Commission has implemented changes to reporting processes. In addition, the Commission implemented procedures to ensure adequate supporting documentation for federal reporting is maintained.

Testing will be performed during completion of the 2013 statewide Single Audit to determine the adequacy of internal controls related to federal compliance requirements.

Status—OPEN

Finding 12F-2—Equipment purchased with Vocational Rehabilitation grant funds was not managed in accordance with federal and state requirements.

Recommendation—We recommended that the Commission strengthen internal controls to ensure that equipment management is completed in accordance with federal and state requirements.

90-Day Follow-up—The Commission has taken steps to improve internal controls over all equipment purchased. Personnel will be trained to properly manage equipment in accordance with federal and state requirements.

Testing will be performed during completion of the 2013 Single Audit to determine that equipment management is properly completed.

Status—OPEN

FISH AND GAME, DEPARTMENT OF

Finding 12F-3—Procedures intended to ensure compliance with Equipment and Real Property Management requirements of the Bonneville Power Administration grant contain significant deficiencies in internal control allowing errors to go undetected and uncorrected.

Recommendation—We recommended that the Department of Fish and Game (Department) strengthen internal controls over capital asset management to ensure capital assets are accounted for properly and comply with State policies.

90-Day Follow-up—The Department met with Legislative Services Office (LSO) Audit staff to review the internal control procedures implemented to address this finding. Review procedures now include an additional step to ensure the Program Cost Account (PCA) code and funding source have been included for all capital assets entered into the Fixed Asset System (FAS). We verified that the capital assets incorrectly omitted from FAS for the Fiscal Year 2012 Single Audit have now been entered with all required information.

Part of the Department's corrective action plan is to research capital assets entered into FAS in prior years and add the funding source and PCA code. The Department has made progress on this part of the plan but has not completed the entries for all capital assets.

In addition to the newly implemented procedures, the Department has increased its internally designated reporting threshold from \$1,000 to \$2,000, which is still in compliance with state policies and federal regulations, but will ease the administrative burden of tracking the assets. Certain high risk items such as firearms and other equipment are tracked in FAS regardless of cost.

These procedures address the recommendation, but the effectiveness of the changes will not be clear until the completion of auditing procedures on the Bonneville Power Administration grant as part of the fiscal year 2013 Single Audit.

Status—OPEN

HEALTH AND WELFARE, DEPARTMENT OF

Finding 12F-4—Federal expenditures not expected to exceed \$100,000 are not monitored to ensure compliance with suspension and debarment requirements.

Recommendation—We recommended that the Department of Health and Welfare (Department) implement procedures to check suspension and debarment for covered transactions that are not expected to exceed \$100,000 over the term of the contract. Additionally, we recommended that the Department implement procedures to monitor federal expenditures to identify contract expenditures subject to suspension and debarment requirements.

90-Day Follow-up—The Department asserts that the Office of the State Controller is responsible for performing a check on vendors before loading their information into STARS. This check only tests whether new vendors are suspended or debarred, it does not check the ongoing status of current vendors. Due to the lack of monitoring and other internal control procedures, the Department could still contract with or make subawards under covered transactions to parties that are suspended or debarred or whose principals are suspended or debarred.

Status—OPEN

Finding 12F-5—Client eligibility errors may go undetected and uncorrected due to insufficient internal controls resulting in improper payments.

Recommendation—We recommended that the Department implement procedures to ensure all Alert IDs are included in the investigation and resolution of errors identified by the interface between IBES and MMIS. We further recommended that the Department increase monitoring of internal controls to ensure they are operating effectively and that claims are only processed for eligible clients.

90-Day Follow-up—Based upon the most recent response received from the Department, system enhancements are being developed to address the underlying problems with the interface between IBES and MMIS. The majority of the enhancements are planned for implementation in January 2014. These changes will be evaluated when complete.

Status—OPEN

Finding 12F-7—Health and safety requirements are not monitored for In-Home Child Care providers or for providers licensed by states other than Idaho.

Recommendation—We recommended that the Department implement internal controls to ensure compliance with the Idaho State Plan. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

90-Day Follow-up—The Department is in the process of collecting copies of health and safety inspections for out-of-state providers and plans to initiate a rule change that would exempt providers caring for children in the child's own home from Health and Safety inspection requirements in accordance with federal program guidelines. The rule change has not yet been submitted to the State's Administrative Rules Coordinator by the Department's Administrative Rules Unit and, once submitted, will be subject to the State's rulemaking process. We will review the status of the potential rule change as well as the status of the efforts to obtain health and safety inspections for out-of-state providers during completion of the 2013 Single Audit.

Status—OPEN

Finding 12F-8—Child Care benefits paid to or on behalf of individuals were not calculated correctly.

Recommendation—We recommended that the Department implement monitoring procedures over Child Care benefit payments to ensure amounts are properly calculated.

90-Day Follow-up—The Department is working to complete new automation that will improve the calculation of non-standard co-pays within the Child Care program. These system enhancements have an estimated implementation date, including staff training, of late fall 2013. We will assess the effectiveness of the planned changes during completion of the 2013 Single Audit.

Status—OPEN

Finding 12F-9—Child care costs incurred prior to the period of availability were inappropriately charged to the Child Care grant

Recommendation—We recommended that the Department implement control procedures to ensure that grant costs are not incurred prior to the period of availability.

90-Day Follow-up—Currently, the Department processes changes to the accounting structure on October 1 to charge costs to the new grant phase. To address this issue, the Department plans to delay the coding change for this grant to mid-October, asserting that this will prevent payment for services provided during the month of September, but paid in October, from being charged to the new grant phase, which begins in October. The new process will be evaluated during completion of the 2013 Single Audit.

Status—OPEN

Finding 12F-10—Internal controls designed to ensure compliance with federal earmarking requirements for the Social Services Block Grant (SSBG) are not adequately designed or monitored.

Recommendation—We recommended that the Department strengthen internal controls over earmarking to ensure that amounts transferred from TANF are used only for programs or services to children or their families whose income is less than 200% of the official poverty guidelines. We further recommended that the Department contact the federal grantor to resolve the questioned costs.

90-Day Follow-up—The Department disagrees with this finding and, accordingly, has not made the recommended changes. We continue to affirm the finding, and the issue is currently under review with the federal grantor.

Status—OPEN

Finding 12F-11—Internal controls designed to prevent, or detect and timely correct, improper payments in the Social Services Block Grant (SSBG) did not always operate as designed.

Recommendation—We recommended that the Department strengthen monitoring of internal controls to ensure the controls are operating as designed and supporting documentation is maintained for all expenditures in order to comply with federal program requirements.

90-Day Follow-up—The Department provided documentation to support one questioned transaction, however, documentation for a second questioned transaction was not sufficiently detailed to allow us to make a determination as to whether or not the transaction was proper. The Department is currently preparing an adjusting journal entry to move the second transaction out of SSBG and will also be evaluating internal controls over disbursements to ensure detailed support documentation is required prior to processing expenditure transactions. Any improvements made as a result of the evaluation will be tested during completion of the 2013 Single Audit.

Status—OPEN

Finding 12F-12—Adjustment transactions posted to the Social Services Block Grant (SSBG) were inappropriately coded to the wrong grant year resulting in noncompliance with period of availability requirements.

Recommendation—We recommended that the Department make the necessary adjustments to record the expenditures in the proper grant year. We further recommended the Department contact the federal grantor to resolve the questioned costs.

90-Day Follow-up—Information was not provided to indicate that the adjustments have been completed as of the date the Department was contacted.

Status—OPEN

Finding 12F-13—Subawards made from the Social Services Block Grant totaling \$55,996 were not reported as required under the Federal Funding Accountability and Transparency Act.

Recommendation—We recommended that the Department implement internal control procedures to identify and appropriately respond to specific risks of noncompliance with federal awards. We further recommended that the Department submit the appropriate reports required under the Federal Funding Accountability and Transparency Act.

90-Day Follow-up—The Department submitted the appropriate reports required under the Federal Funding Accountability and Transparency Act in response to this finding; however, internal control procedures to identify and appropriately respond to specific risks of noncompliance with federal awards have not been implemented. As a result, a new contract amendment was signed exceeding \$25,000 and no transparency report was filed as required.

Status—OPEN

Finding 12F-14—Subawards made from the Supplemental Nutrition Program for Women, Infants, and Children (WIC) grant totaling \$8.3 million were not reported as required under the Federal Funding Accountability and Transparency Act.

Recommendation—We recommended that the Department implement internal control procedures to identify and appropriately respond to specific risks of noncompliance with federal awards. We further recommended that the Department submit the appropriate reports required under the Federal Funding Accountability and Transparency Act.

90-Day Follow-up—The Department submitted the appropriate reports required under the Federal Funding Accountability and Transparency Act in response to this finding; however, internal control procedures to identify and appropriately respond to specific risks of noncompliance with federal awards have not been implemented.

Status—OPEN

Finding 12F-15—Procedures are not in place to negotiate and/or monitor indirect cost rate plans prepared by the various subrecipients of the Supplemental Nutrition Program for Women, Infants, and Children (WIC) grant, and the amounts submitted on monthly invoices are not adequately reviewed prior to processing payments.

Recommendation—We recommended that the Department implement internal control procedures to negotiate and monitor the indirect cost rate plans prepared by subrecipients. We further recommended training related to the proper application of the indirect cost rates be provided for staff assigned to review monthly invoices from subrecipients.

90-Day Follow-up—The Department asserts that they have developed a Fiscal Monitoring Policy and Procedure to address subrecipient monitoring and have submitted it to their Internal Audit department for review prior to implementation, which is currently scheduled to be

completed by December 31, 2013. We will evaluate the effectiveness of the design and implementation of these procedures during completion of the 2013 Single Audit.

Status—OPEN

Finding 12F-16—Internal controls designed to monitor compliance with federal requirements related to the review of food instruments and cash-value vouchers in the Supplemental Nutrition Program for Women, Infants, and Children (WIC) program were not operating as designed.

Recommendation—We recommended that the Department perform monitoring procedures as outlined in the contract to ensure the contractor is completing required testing of food instruments and cash-value vouchers as required by Office of Management and Budget (OMB) Circular A-133.

90-Day Follow-up—The Department asserts that the WIC program has begun monitoring random samples monthly; however, all necessary documentation to test the new procedure has not been provided. We will evaluate compliance during completion of the 2013 Single Audit.

Status—OPEN

VOCATIONAL REHABILITATION, DIVISION OF

Finding 12F-19—A cash draw from the Vocational Rehabilitation Grants to States of \$1.7 million was made for reimbursement of unsupported expenditures.

Recommendation—We recommended that the Division of Vocational Rehabilitation (Division) follow the implemented internal controls for making cash draws. We further recommended that the Division develop procedures to provide adequate support for each cash reimbursement request.

90-Day Follow-up—The Division implemented a process to support cash reimbursement requests with reports from the statewide accounting system. This process includes improved procedures to associate transactions with specific awards. Testing of cash draws will be performed during the 2013 Single Audit to determine that the internal controls for cash draws have been implemented and that the cash draws are properly supported.

Status—OPEN

Finding 12F-21—Federal financial reports for the Vocational Rehabilitation Grants to States are not supported by the Division's accounting records.

Recommendation—We recommended that the Division develop a process to identify and use accurate and reliable financial records that are reconciled to the statewide accounting system when preparing federal reports. We further recommended that the Division implement adequate internal controls over the reporting process such as reviews by someone knowledgeable about

the required reporting information and the underlying data to ensure the report is prepared in accordance with the instructions and requirements.

90-Day Follow-up—The Division is using data from the statewide accounting system to complete the financial requirements in federal reports. In addition, the Division has communicated with the federal grantors and received clarification on reporting requirements. Testing of federal reporting will be performed during the 2013 Single Audit to determine that federal financial reports are supported by the Division's accounting records.

Status—OPEN

Finding 12F-22—The indirect cost rate for the Vocational Rehabilitation Grants to States was incorrectly applied and controls were ineffective in detecting errors.

Recommendation—We recommended that the Division provide staff with training to ensure adequate knowledge of the compliance requirements in OMB *Circular A-87*. We further recommended that the Division design adequate internal controls to review and approve the calculation of draw requests and ensure the proper indirect cost rate is correctly applied to the appropriate base prior to drawing amounts.

90-Day Follow-up—The Division has developed an internal control process to track and document the application of the indirect cost rate. The control process includes a review of the rate application by a staff member separate than the staff member originating the rate application. Testing of cost principles will be performed during completion of the 2013 Single Audit to determine that the indirect cost rate has been applied correctly and controls implemented are working as intended.

Status—OPEN

Finding 12F-23—Documentation of electronic signatures is not retained in an accessible format to provide evidence that eligibility for vocational rehabilitation services was properly determined.

Recommendation—We recommended that the Division ensure that adequate documentation is retained to identify the staff completing key approvals and eligibility determinations.

90-Day Follow-up—The Division has developed a system to maintain documentation of the necessary electronic signatures. In addition, the Division has created a report that will provide an audit trail for changes made to authorization forms thus providing necessary documentation for eligibility determinations. Testing will be performed during completion of the 2013 Single Audit to determine adequate documentation is maintained to verify the appropriate staff approvals and eligibility determinations.

Status—OPEN

Finding 12F-24—The maintenance of effort federal requirement was not met for the Vocational Rehabilitation Grants to States.

Recommendation—We recommended that the Division properly monitor maintenance of effort requirements to ensure compliance.

90-Day Follow-up—The Division has not taken action to address this finding. The Division asserts that the ability to meet the maintenance of effort requirement is dependent on the appropriation process, which is outside of their control, and that the penalty for failure to meet this requirement would not affect the agency. Historically, the amount of the grant award reverted back to the federal awarding agency as unused has been greater than the potential future reduction in funding resulting from any penalty.

While we recognize the State funding provided to the Division limits the ability to meet the maintenance of effort requirement, the Division is not relieved of the responsibility to comply with requirements included in Office of Management and Budget (OMB) *Circular A-133*, including maintenance of effort. Testing will be performed during completion of the 2013 Single Audit to determine maintenance of effort compliance.

Status—OPEN

Management Review

ARTS, IDAHO COMMISSION ON THE Fiscal Year 2008 Review

Finding 3—No process exists to ensure that federal funds received in advance are for costs incurred within 30 days, as required.

Recommendation—We recommended that the Idaho Commission on the Arts (Commission) comply with federal regulations over federal funds requested and consider requesting a borrowing limit from the Division of Financial Management to eliminate the need to request funds in advance.

90-Day Follow-up—In fiscal year 2011, the Commission established a borrowing limit with the Division of Financial Management and is now requesting the fiscal year 2011 grant on a reimbursement basis. However, the Commission did request amounts on the fiscal year 2010 grant on an advance basis. We discussed with the deputy director how the Commission was going to ensure the advance was spent within 30 days. There was no process in place but it was anticipated that the advanced funds would be spent making final award payments.

Status—OPEN

Next Scheduled Review—Fiscal years 2009, 2010, 2011 scheduled for Spring 2014.

HEALTH AND WELFARE, DEPARTMENT OF

Fiscal Year 2012 Review

Finding 1—Over the two-year period, three programs within the Division of Public Health exceeded appropriated amounts by approximately \$67,000.

Recommendation—We recommended that the Department of Health and Welfare (Department) strengthen internal controls over the processes used to account for spending and used to report compliance with legislative appropriations.

90-Day Follow-up—Pending

Status—OPEN

Finding 2—Transfers of legislative appropriation between expenditure categories intended to ensure compliance lacked proper approvals.

Recommendation—We recommended that the Department design and implement appropriate internal controls to ensure compliance with appropriation bills and statutes. We further recommended that the Department maintain detailed supporting documentation for all transactions recorded on the DU 2.00 Report.

90-Day Follow-up—Pending

Status—OPEN

Finding 3—Accounting structure and staffing changes necessary to convert to a multi-fund structure.

Recommendation—This finding did not contain a recommendation. Conclusions were reported identifying potential changes to staffing and accounting structure if the agency converted to a multi-fund accounting structure. No issues requiring corrective action were reported for this finding.

Next Scheduled Review—Follow-up report scheduled for Spring 2014.

LIBRARIES, IDAHO COMMISSION FOR

Fiscal Year 2012 Review

Finding 1—Supporting documentation was unavailable or inadequate for 17% of expenditures selected for testing.

Recommendation—We recommended that the Idaho Commission for Libraries implement a filing system that will adhere to the records retention guidelines and prevent the risk of lost or misplaced documentation necessary for supporting the Commission's financial transactions.

90-Day Follow-up—Pending

Status—OPEN

Next Scheduled Review—Follow-up report scheduled for Spring 2014.

**OCCUPATIONAL LICENSES, IDAHO BUREAU OF
Fiscal Year 2012 Review**

Finding 1—One-third of the boards served by the Bureau of Occupational Licenses report negative cash balances totaling almost \$622,000.

Recommendation—We recommended that the boards work with the Idaho Bureau of Occupational Licenses (Bureau) to develop performance criteria that can be used to evaluate their self-sufficiency. If necessary, appropriate action should be pursued, such as cutting costs or developing fee increases, if performance criteria are not met and a negative cash balance is expected to continue. In addition, other options may be considered; for example, working with the Legislature to authorize a one-time fee assessment or requesting General Fund support. We further recommended that the boards formally document the steps taken to become self-sufficient and the reasonable length of time a board anticipates having a negative fund balance. We also recommended that the Bureau make recommendations to the board if cost savings are not timely implemented by the board.

90-Day Follow-up—Pending

Status—OPEN

Next Scheduled Review—Follow-up report scheduled for Spring 2014.

**PEACE OFFICERS STANDARDS AND TRAINING, IDAHO STATE POLICE
Fiscal Year 2008 Special Review (no additional reviews or follow-up reports planned after
September 2009, reviewed as part of the Idaho State Police)**

Finding 3—Additional efforts are needed to track outstanding obligations on smaller contracts.

Recommendation—We recommended that the Peace Officers Standards and Training (POST) Academy apply existing controls and tracking over all contracts and purchase orders to ensure that all obligations are paid as required.

90-Day Follow-up—The POST Academy is currently developing a process where the training specialist will track the outstanding obligations as the services are rendered. This process should ensure that all obligations on these smaller training contracts are tracked.

Status—OPEN

Next Scheduled Review—No specific review scheduled.

RACING COMMISSION
Fiscal Year 2011 Review

Finding 1—Internal controls over the Simulcast Purse Moneys Fund should be improved to provide greater assurance of compliance with State Fiscal Policies for funds held in a fiduciary capacity.

Recommendation—We recommended that the Racing Commission design and implement procedures to ensure the deposits and distributions from the Simulcast Purse Moneys Fund are timely and accurate.

90-Day Follow-up—Pending

Status—OPEN

Next Scheduled Review—Follow-up report scheduled for Spring 2014.

SECRETARY OF STATE
Fiscal Year 2010 Review

Finding 2—Internal control weaknesses exist in federal grant accounting and program compliance.

Recommendation—We recommended that the Office of the Secretary of State (Office) develop internal controls and procedures to comply with federal accounting and grant reporting requirements contained in federal regulations.

90-Day Follow-up—The Office is developing control procedures to comply with federal accounting and grant reporting requirements. It is still in the processes of implementing these procedures and will continue to work with the State Controller and Legislative Services Office to ensure that the control procedures are implemented properly.

Status—OPEN

Next Scheduled Review—Fiscal years 2011, 2012, and 2013 scheduled for Spring 2014.

TRANSPORTATION, IDAHO DEPARTMENT OF
Fiscal Year 2009 Review

Finding 1—Authority and funding for the State airplane is not specifically provided in Idaho Code or identified in appropriations from the State Highway and Aeronautics Funds.

Recommendation—We recommended that the Idaho Department of Transportation (Department) clarify the authority and funding issues in regard to operating the State airplane service through appropriate executive order, administrative rule, and/or legislation.

90-Day Follow-up—The Department has responded to the finding by proposing to amend current statutes to authorize funds for the State airplane service from the State Highway and Aeronautics funds. The source of funds for operation and maintenance of the State airplane would not change from the current practice, but the proposed legislation would specifically authorize the current sources in statute. This finding remains open pending the outcome of the proposed legislation.

Status—OPEN

Next Scheduled Review—Fiscal years 2010, 2011, and 2012 will be issued Spring 2014.

TREASURER, STATE

Fiscal Year 2010 Review

Finding 2—Staff time and State General Funds are used to support programs not specifically authorized by statute.

Recommendation—We recommended that the Office of the State Treasurer (Office) discontinue using State funds and staff resources to support programs not authorized by the Legislature in statute or specifically provided for in appropriation law.

90-Day Follow-up—The Office disagreed with this finding and legislation was introduced during the 2012 Legislative Session to clarify the duties of the State Treasurer to include financial literacy programs, but was later withdrawn. State General funds continued to be used to support the Smart Women, Smart Money conference in fiscal years 2011 and 2012. We assert that the conference is a program not specifically authorized by statute and should not receive a General Fund contribution.

The Office addressed a portion of this finding that identified concerns with the officers of the Smart Women, Smart Money conference, a non-profit corporation, and their relationship to the Office. An Office employee and a contracted investment manager were listed as the Director and the President, respectively, of the non-profit corporation. The non-profit corporation was restructured to ensure its officers are not closely connected to the Office of the State Treasurer.

Status—OPEN

Next Scheduled Review—Fiscal years 2011, 2012, and 2013 scheduled for Spring 2014.

APPENDIX A: AUDIT REPORTS ISSUED

AGENCY	REPORT	AUDIT YEAR	ORIGINAL FINDINGS	FOLLOW-UP REPORT	OPEN FINDINGS
Accountancy, State Board of	IC42210	2010	0	N/A	0
Administration, Department of	CA20012	2012	0	N/A	0
Administration, Department of	IC20010	2010	0	N/A	0
Aging, Idaho Commission on	MR18712	2012	0	N/A	0
Agriculture, Department of	MR21011	2011	0	N/A	0
Appellate Public Defender	MR44311	2011	1	10/16/2013	0
Arts, Idaho Commission on the	IC19609	2009	4	6/22/2011	1
Attorney General	MR16012	2012	0	N/A	0
Blind Commission	MR18912	2012	0	N/A	0
Blind Commission	SA18912	2012	2	10/22/2013	2
Brand Board, State	MR33111	2010	0	N/A	0
Building Safety, Division of *	MR45010	2012	3	5/16/2012	0
Commerce, Department of	CA22012	2012	0	N/A	0
Commerce, Department of	IC22009	2009	0	N/A	0
Controller, State	CA14012	2012	2	7/8/2013	2
Correction, Department of	CA23012	2012	0	N/A	0
Correction, Department of	MR23010	2012	0	N/A	0
Correctional Industries	MR23109	2010	0	N/A	0
Deaf and the Blind, School for the	IC50209	2009	0	N/A	0
Dentistry, Board of	MR42312	2009	0	N/A	0
Division of Environmental Quality	CA24512	2012	0	N/A	0
Division of Environmental Quality	SA24512	2012	0	N/A	0
Clean Water State Revolving Fund (DEQ)	OP24712	2012	0	N/A	0
Drinking Water State Revolving Fund (DEQ)	OP24612	2012	0	N/A	0
Drug Policy, Office of	MR19811	2011	1	1/26/2012	0
Education, State Board of	MR50110	2010	0	N/A	0
Energy Resources, Office of	SA19912	2012	0	N/A	0
Finance, Department of	MR25011	2011	0	N/A	0
Financial Management, Division of	SA18012	2012	0	N/A	0
Financial Management, Division of	MR18010	2010	0	N/A	0
Fish & Game, Department of	IC26009	2009	0	N/A	0
Fish & Game, Department of	SA26012	2012	1	10/22/2013	1
Health & Welfare, Department of	CA27012	2012	0	N/A	0
Health & Welfare, Department of	SA27010	2010	11	8/24/2011	1
Health & Welfare, Department of	SA27011	2011	17	11/22/2012	3

AGENCY	REPORT	AUDIT YEAR	ORIGINAL FINDINGS	FOLLOW-UP REPORT	OPEN FINDINGS
Health & Welfare, Department of	SA27012	2012	14	10/22/2013	12
Health & Welfare, Department of	MR27012	2012	3	PENDING	3
Health District I	OP95110	2010	0	N/A	0
Health District I	OP95111	2011	0	N/A	0
Health District I	OP95112	2012	0	N/A	0
Health District II	OP95210	2010	0	N/A	0
Health District III	OP95310	2010	0	N/A	0
Health District III	OP95311	2011	0	N/A	0
Health District III	OP95312	2012	0	N/A	0
Health District IV	OP95410	2010	0	N/A	0
Health District V	OP95510	2010	0	N/A	0
Health District VI	OP95610	2010	0	N/A	0
Health District VII	OP95710	2010	0	N/A	0
Hispanic Affairs, Commission on	IC44110	2010	0	N/A	0
Historical Society	MR52211	2011	0	N/A	0
Human Resources, Division of	MR19412	2012	0	N/A	0
Industrial Commission	MR30011	2011	0	N/A	0
Insurance, Department of	IC28010	2010	0	N/A	0
Juvenile Corrections, Department of	MR28511	2012	0	N/A	0
Labor, Department of	CA24012	2012	2	7/8/2013	2
Labor, Department of	SA24012	2012	1	10/22/2013	0
Labor, Department of	MR24012	2012	0	N/A	0
Lands, Department of	IC32009	2009	0	N/A	0
Lava Hot Springs Foundation	MR34111	2011	0	N/A	0
Libraries, Idaho Commission for	MR52112	2012	1	PENDING	1
Lieutenant Governor	IC12010	2010	0	N/A	0
Liquor Dispensary, State	IC18510	2010	0	N/A	0
Medicine Board	MR42511	2011	0	N/A	0
Military Division	SA19012	2012	0	N/A	0
Military Division	IC19009	2009	0	N/A	0
Nursing Board	IC42610	2010	0	N/A	0
Occupational Licenses Board	MR42712	2012	1	PENDING	1
Outfitters/Guides Licensing Board	IC43410	2010	0	N/A	0
Parks & Recreation, Department of	MR34011	2011	0	N/A	0
Pharmacy Board	IC42108	2008	2	2/16/2010	0
Police, Idaho State	MR33011	2011	0	N/A	0
Police Officers Standards/Training, Idaho State Police	IC33308	2008	5	9/3/2009	1
Professional Engineers, Board of	IC42410	2010	0	N/A	0
Professional Technical Education	IC50309	2009	0	N/A	0

AGENCY	REPORT	AUDIT YEAR	ORIGINAL FINDINGS	FOLLOW-UP REPORT	OPEN FINDINGS
Public Television, Idaho	OP52013	2013	0	N/A	0
Public Utilities Commission	MR90012	2012	0	N/A	0
Racing Commission	MR33211	2011	1	PENDING	1
Real Estate Commission	IC42910	2010	1	10/19/2011	0
Secretary of State	MR13010	2010	2	1/25/2012	1
Species Conservation	MR19510	2010	0	N/A	0
Superintendent of Public Instruction	CA17012	2012	0	N/A	0
Superintendent of Public Instruction	IC17010	2010	0	N/A	0
Tax Appeals, Board of	IC35109	2012	1	1/27/2011	0
Tax Commission, Idaho State	CA35212	2012	0	N/A	0
Tax Commission, Idaho State	MR35211	2011	0	N/A	0
Transportation Department, Idaho	CA29012	2012	1	7/8/2013	1
Transportation Department, Idaho	IC29009	2009	1	12/16/2010	1
Transportation Department, Idaho	SA29012	2012	0	N/A	0
Treasurer, State	CA15012	2012	0	N/A	0
Treasurer, State	MR15010	2010	3	7/12/2012	1
Veteran Services, Division of	IC44410	2010	2	1/25/2012	0
Veterinary Medicine, Board of	MR43511	2011	0	N/A	0
Vocational Rehabilitation	IC52308	2008	0	N/A	0
Vocational Rehabilitation	SA52312	2012	6	10/22/2013	5
Water Resources, Department of	CA36012	2012	0	N/A	0
Water Resources, Department of	IC36010	2010	0	N/A	0
*Finding cleared in September 2013					

APPENDIX B: THREE-YEAR AUDIT SCHEDULE

The following table shows the planned audit work for each agency that we visit. Audit work is designated using the reporting indicators as follows: CA=Audit of the statewide *Comprehensive Annual Financial Report*, SA=statewide *Single Audit Report*, MR=Management Review, and OP=Entity Opinion Audit.

AUDIT PERIOD ENDING	FY12	FY13	FY14
AUDIT YEAR COMPLETED	FY13	FY14	FY15
Accountancy, Board of		MR	
Administration, Department of	CA/MR	CA	CA
Aging, Commission on	MR		
Agriculture, Department of			MR
Appellate Public Defenders			MR
Arts, Commission on	MR		
Attorney General	MR		
Blind Commission	SA/MR	SA	SA
Board of Education		MR	
Brand Board			MR
Building Safety, Division of		MR	
Clean Water State Revolving Fund (DEQ)	OP	OP	OP
Controller, State	CA/SA	CA/SA	CA/SA
Commerce, Department of	MR		
Correction, Department of	CA	CA/MR	CA
Correctional Industries	MR		
Dentistry Board	MR		
Drinking Water State Revolving Fund (DEQ)	OP	OP	OP
Drug Policy, Office of	MR		
Employee Information System, State Controller	CA	CA	CA
Energy Resources, Office of	SA	MR	
Engineers and Land Surveyors		MR	
Environmental Quality, Division of	CA	CA/MR	CA
Finance, Department of			MR
Financial Management, Division of	SA	MR	
Fish and Game, Department of	MR	SA	
Health & Welfare, Department of	CA/SA/MR	CA/SA	CA/SA/MR
Health District 1	OP	OP	OP
Health District 2	OP	OP	OP
Health District 3	OP	OP	OP
Health District 4	OP	OP	OP
Health District 5	OP	OP	OP

AUDIT PERIOD ENDING	FY12	FY13	FY14
AUDIT YEAR COMPLETED	FY13	FY14	FY15
Health District 6	OP	OP	OP
Health District 7	OP	OP	OP
Hispanic Affairs		MR	
Historical Society			MR
Human Resources, Division of	MR		
Industrial Commission		CA	MR
Insurance, Department of		CA/MR	
Juvenile Corrections, Department of			MR
Labor, Department of	CA/SA/MR	CA/SA	CA
Lands, Department of	MR		
Lava Hot Springs Foundation			MR
Libraries, Idaho Commission for	MR		
Liquor Dispensary		CA/MR	
Lt. Governor		MR	
Medicine Board			MR
Military Division	SA/MR		
Nursing Board		MR	
Occupational Licenses, Bureau of			MR
Outfitters and Guides Licensing Board		MR	
Parks and Recreation, Department of			MR
Pharmacy Board			MR
Professional Technical Education	MR		
Public Television, Idaho	OP	OP	OP
Public Utilities Commission	MR		
Racing Commission			MR
Real Estate Commission		MR	
Secretary of State		MR	
Species Conservation, Office of		MR	
State Police, Idaho			MR
Superintendent of Public Instruction	CA	CA/MR	CA/SA
Tax Appeals, Board of	MR		
Tax Commission, Idaho State	CA	CA	CA/MR
Transportation, Department of	CA/MR	CA	CA/SA
Treasurer, State	CA	CA/MR	CA
Veterans, Division of		SA/MR	
Veterinary Medicine Board			MR
Vocational Rehabilitation	SA	SA	MR

AUDIT PERIOD ENDING	FY12	FY13	FY14
AUDIT YEAR COMPLETED	FY13	FY14	FY15
Water Resources, Department of	CA	CA/MR	CA
Number of Management Reviews Scheduled	15	15	17
Total Agency Visits for all Report Types	41	42	39